PHILIPPINES ECONOMIC WRAP-UP
MARCH 17-23, 2001

Summary

Efforts to restructure the power industry continue, with the Cabinet sending a revised bill to the legislature for consideration. We report on moves to fully implement the Revised Securities Code in a manner that bridges the intent of legislators and the desires of stock brokers. We provide an update on the fiscal situation (still behind on revenues, but also within spending targets); and on the problems that are expected to continue to plague the electronics export industries.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). Readers should note that we will not publish the 'Wrap-Up' on April 13 due to local Philippine holidays. We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site.

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Market and Policy Developments

FOREX REPORT

The Philippine peso slid to test, then bust completely through, the P49/US$ level this week. Traders said that the depreciation in the peso's value was more of a reaction to the decline of the value of the Thai baht and the Japanese yen, and less related to domestic developments. The peso ended the week at P49.135/US$ on March 23. The March 16 close was P48.50/US$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
FEB 12	48.140	47.820	167.5
13	47.674	47.630	131.1
14	47.583	47.955	131.0
15	47.889	47.490	267.5
16	47.550	47.550	125.6
FEB 19	47.672	47.850	90.4
20	47.801	47.630	153.1
21	47.925	48.120	138.0
22	48.234	48.350	222.1
23	48.323	48.160	170.5
FEB 26	48.094	48.230	125.0
27	48.263	48.265	129.5
28	48.286	48.280	93.7
MAR 01	48.374	48.470	100.1
02	48.490	48.340	125.5
MAR 05	47.812	47.670	114.5
06	47.666	47.660	121.1
07	47.799	47.905	140.5
08	48.002	47.910	163.0
09	47.982	48.065	164.5
MAR 12	48.177	48.145	138.8
13	48.159	48.160	130.8
14	48.141	48.200	66.0
15	48.367	48.430	148.5
16	48.627	48.500	149.2

MAR 19	48.551	48.505	128.5
20	48.496	48.440	131.7
21	48.580	48.633	150.1
22	48.797	48.955	159.5
23	49.048	49.135	138.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Banks and traders, widely anticipating cuts in key U.S. policy rates (and corresponding cuts in Philippine overnight rates), bid down interest rates on T-Bills at the March 19 auction. Demand for the government paper was extremely heavy with total bids of over P17 billion submitted for the P4 billion worth of bills offered. The interest rate on the 91-day T-Bill sank 23.7 basis points to 9.656%, and the interest rate on the 182-day bill fell 44.7 basis points to 10.356%. The interest rate on the 364-day bill also shed 44.8 basis points to 11.34%. The Treasury Bureau took advantage of the heavy demand to sell an additional P1.5 billion worth of 364-day bills through its over-the-counter tap facility on March 21, at rate of 11.2%. National Treasurer Sergio Edeza told reporters that the Treasury would continue to use the tap facility if demand for government securities remains high and interest rates remain competitive. Edeza's office also announced the Treasury's intentions to auction P4 billion each of 2-year and 5-year T-Bonds during the first week in May; T-bond auctions have been suspended since February.

Neither the U.S. Fed nor the Bangko Sentral ng Pilipinas (BSP, the central bank) disappointed investors. Following the 50 basis point cut in U.S. policy rates, the BSP moved to cut its overnight borrowing and lending rates by 50 basis points to 10% and 12.25%. This is the BSP's seventh rate cut in 2001; since December, Philippine overnight rates have fallen 5 percentage points.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
FEB 12	10.607	11.913	12.632
FEB 19	10.525	11.900	12.500
FEB 26	10.456	11.783	12.497
MAR 05	10.328	11.560	12.453
MAR 12	9.893	10.983	11.788
MAR 19	9.656	10.356	11.340

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
FEB 15	15.2550	12.25 – 19.00
FEB 21	14.9393	12.25 – 19.00
MAR 01	14.5759	12.25 - 19.00
MAR 08	14.3913	12.00 – 19.00
MAR 15	13.6914	11.50 – 15.25
MAR 22	13.5156	11.25 – 14.656

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine stock market continued its weak performance this week, following the downward trend in other world equities markets. The volume of trades also remains moribund; one trader noted that investors continue to hold a skeptical 'wait-and-see' attitude about the new administration's ability to implement significant economic reforms. Questions about the full implementation of the new Securities Regulation Code (see below) also have dampened investors' appetites. From its March 16 close of 1498.32, the 33-share Philippine Stock Index (PHISIX) sank 4.45% to close on March 23 at 1431.57.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
FEB 12	1712.06	734
13	1692.27	556
14	1687.74	622
15	1688.05	534
16	1689.91	950
FEB 19	1673.96	444
20	1659.08	369
21	1654.86	378
22	1641.05	485
23	1647.00	595
FEB 24	1636.04	498
25	1632.30	344
26	1613.49	995
MAR 01	1570.20	735
02	1596.97	499
MAR 05	1616.54	614
06	1611.47	328
07	1612.81	312
08	1589.57	223
09	1588.39	613
MAR 12	1567.53	196
13	1526.40	348
14	1523.79	266
15	1491.79	383
16	1498.32	309
MAR 19	1507.52	374
20	1491.54	335
21	1471.56	277
22	1466.23	420
23	1431.57	486

Source: Philippine Stock Exchange

POWER SECTOR REFORM

Philippine Secretary of Energy 'Lito' Camacho presented to the Cabinet on Tuesday, March 20, the results of a broad public review of the provisions of the proposed legislation to restructure the Philippine power industry (and privatize the state-run National Power Corporation). Based on the presentation, the Cabinet has sent a new draft of the legislation to the bicameral committee that is trying to finalize the legislation. Hope remains that the bill could be considered and finalized for the President's signature in a session of Congress to be held in June. While we've not seen the new 'cabinet-approved' draft, we understand it contains a provision to completely ban cross-ownership between the generating and distribution sectors. However, the cabinet has apparently also indicated that a relaxed cross-ownership restriction of 25% of the national grid (and 30% of a regional grid) would be acceptable. Distribution utilities would be barred from purchasing more than 35% of their power needs from a "related firm" in the generating sector. The revised version sent to the Congress completely deletes all references to stranded costs; the administration is instead proposing that the contentious issue be dealt with by the next congress. The bill also reportedly contains a provision to require the review of all National Power Corporation power purchase agreements independent power producers.

STOCK MARKET NOTES

New PSE Board and the SRC: Philippine Stock Exchange (PSE) officials said in media interviews that the PSE's newly-elected board intends to seek relief from restrictive provisions of the July 2000 Securities Regulation Code (SRC). They specifically cited a SRC provision which segregates broker-dealer functions (except under specified circumstances); and a provision which prohibits broker-dealers from trading securities issued by related parties ("broker-director rule"). The PSE is exploring either a more liberal interpretation of the SRC's legal provisions to give brokers more leeway and exemptions; or, if necessary, amendments to the law itself. The PSE had unsuccessfully fought these provisions during public hearings on the draft SRC in the Philippine Congress. In the midst of the raging BW Resources stock manipulation scandal, legislators insisted on the provisions as among major measures to enhance investor welfare and to prevent abuses arising from conflict-of-interest situations. While the SEC has indicated its willingness to be flexible in implementation of the SRC (see below), the SEC has also said that it cannot issue broad exemptions or deferrals as such action would be tantamount to promulgating legislation.

SEC Open To Deferring 20% Ownership Rule: The SEC is open to holding off immediate compliance with an SRC provision which limits the ownership of any one industry group in a "demutualized" stock exchange to 20%. That provision responded to allegations, especially at the height of the BW Resources scandal, that the PSE was an "old boys' club" incapable of policing its ranks. The SRC requires the Philippine Stock Exchange to convert to a stock entity within one year from the effectiveness of the Code (that is, by August 8, 2001). PSE officials foresee no problem in meeting the August 8 demutualization deadline, but suggest it will take more time to sell off 80% of the shares. They noted that the PSE would have to test-run its systems, establish viable profit centers, and establish a track record as a profit-oriented stock entity to attract new investors. SEC officials said the SRC provides an "escape clause" which gives their agency leeway to defer or gradually impose the 20% industry-ownership cap. The SEC has asked the SEC to submit a time table to implement the provision. Although not required by the SRC, PSE officials told the Embassy that a public offering was one option seriously under consideration.

FISCAL UPDATE

Revenues Off to Uncertain Start: According to preliminary estimates, total national government revenues for the January-February period were about P6.2 billion short of the government's two-month target. Non-tax inflows were somewhat better than expected. However, tax collections were nearly P8 billion off the mark, with P6.6 billion of that shortfall reflecting lower-than-targeted internal revenue collections. Fiscal managers did not have enough details to determine the major causes of the weaker-than-expected tax collections, especially that posted by the Bureau of Internal Revenue. On the other hand, disbursements were P8 billion below the programmed level (partly because of protracted uncertainties over the fate of the 2001 budget). This helped keep the national government's two-month fiscal gap at P19 billion, within that period's P20.9 billion programmed ceiling. It remains to be seen, however, whether the recent months' "underspending" will hold under an already tight expenditure plan. The national government has set a P145 billion deficit ceiling for the year.

Supplemental Budget Request: The national government has submitted a P10.9 billion supplemental budget request to the Philippine Congress. Budget officials told the Embassy that they had hoped to obtain congressional approval during a three-day special session on March 19-21 (called primarily to act on President Macapagal-Arroyo's request for a special voters' registration). The Senate finance committee reportedly approved the supplemental budget bill. Further Senate action was not possible, however, pending Lower House approval (where appropriation bills should emanate). President Macapagal-Arroyo reportedly may ask for another special session after (or perhaps even before) the May 14 elections to tackle the supplemental budget request. Otherwise, the matter will be taken up when the current Congress reconvenes for the last time on June 4-7 to wind up business.

Budget officials told the Embassy that, given revenue expectations, P10.9 billion was all the government could afford to squeeze in on top of 2001's re-enacted obligation budget. Of that supplemental level, P9.9 billion is earmarked for personnel-related outlays (including a 5% salary increase, as well as retirement and other social security benefits). The remaining P1 billion will allow the government to implement new, priority foreign-assisted projects (FAPs). Budget officials estimated that the total FAPs budget for 2001 currently stands at less than P30 billion (compared to the P100 billion level proposed by the Estrada administration). The government is undertaking a "sector effectiveness and efficiency review" to rationalize the Philippines' $10 billion official development assistance portfolio.

Consolidated Public Sector Deficit: According to preliminary estimates, the consolidated public sector deficit (CPSD - which, in addition to the national government, includes government-owned and controlled corporations, social security agencies, local government units, and government financial institutions) ended 2000 at P141.3 billion. This was 82% (63.7 billion) more than the P77.6 billion CPSD ceiling originally targeted by the previous administration. P136.1 billion in the red, the national government ended 2000 at more than double the P62.5 billion budget gap it had programmed for the year. The government hopes to contain the 2001 CPSD at P81.7 billion (4.1% of GDP), which will hinge heavily on the national government's ability to stay within its P145 billion programmed deficit.

EXPORT SLOWDOWN CONTINUES

The Philippines' merchandise trade surplus dived to $417 million in January from the previous month's $1.26 billion amid a 17% export fall to $2.9 billion and a 10% import rise to $2.5 billion, the National Statistics Office reported. Electronics, which accounted for 12% ($308 million) of imports and 23% ($1,677 million) of exports was the main driver in the country's merchandise foreign trade. Due, however, to the high import content (75%-80%) of the country's top exports, the import decline is expected to pull export numbers further down over the next two months. The export slowdown is projected to continue with the slowdown in the US and Japanese economies, which virtually support the Philippines' semiconductor and computer manufacturing industries. Waning imports reflect the lack of business confidence, according to one private economist. Given the newfound confidence and with the new administration paving the way for new investments, business leaders have changed mode to a more optimistic and strategic view of the economy. But they are still holding off on capital spending, the key to a broader recovery.

PROLONGED ELECTRONICS EXPORT DIP FORECAST

In a meeting with Embassy officials, a senior official with the industry association Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI) projected the dip in electronics exports could extend up to the third quarter of the year. The official attributes this prognosis to two pressing problems the industry faces: a cyclical fall in demand as the industry moves toward "next generation" devices, and slowed demand from major markets. Meanwhile, exporters are thinking of adjusting inventory, whether to stock up on low-priced items or place small orders for high-tech goods. The SEIPI official also suggested that a 3rd and 4th quarter recovery, led by increased holiday demand, might only lead to a 'double dip' with the decline resuming in early 2002 (based on past technology cycles).

Philippine Foreign Trade Performance
January 2001
(FOB Value in Million US$)

	Exports	Imports	BOT
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,988	2,742	247
Apr	2,668	2,528	140
May	2,931	2,437	494
Jun	3,410	2,494	916
Jul	3,219	2,675	544
Aug	3,529	2,643	886
Sep	3,502	2,972	530
Oct	3,398	2,854	544
Nov	3,317	2,668	649
Dec	3,495	2,237	1,258
Jan 2001	2,889	2,472	417

Source: National Statistics Office